

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 PA-01 PRS-01 H-01 /092 W

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 5427

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY WELLINGTON

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E.O. 11652: N/A

TAGS: PINS, EGEN, MY

SUBJECT: FIGHT BETWEEN GOM AND SIME DARBY

REF: KUALA LUMPUR 6878

1. SUMMARY. IN CORPORATE STRUGGLE FOR CONTROL MORE NORMALLY SEEN IN NEW YORK AND LONDON, GOM (THROUGH SUBSIDIARY OF ITS PERNAS GROUP) IS ATTEMPTING TO WREST CONTROL OF GIANT BRITISH-MANAGED SIME DARBY FROM PRESENT BOARD. DISPUTE CENTERS OVER MAKEUP OF BOARD WITH GOM ATTEMPTING, FROM MINORITY POSITION, TO OBTAIN EFFECTIVE CONTROL. ISSUE WILL BE DECIDED AT POLL TO BE HELD ON DECEMBER 10 AND BOTH SIDES NOW FRANTICALLY CHASING PROXIES. NEITHER SIDE HAS HANDLED SITUATION WELL. MAJOR PROBLEM HAS BEEN UNWILLINGNESS OF EITHER SIDE TO COMPROMISE AND BOTH NOW APPEAR TO BE LOCKED INTO PUBLIC CONFRONTATION FROM WHICH NO WINNERS WILL EMERGE. OUTCOME OF POLL IMPOSSIBLE TO PREDICT AND WILL HINGE ON ACTIONS OF SINGAPORE SHAREHOLDERS.

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SITUATION IS COMPLICATED BY OUTSIDE FACTORS AND BECAUSE ISSUE

OF FUTURE OF OLD-LINE BRITISH INTERESTS IN MALAYSIA OFTEN GENERATES MORE HEAT THAN LIGHT. GOM HAS BEEN ABLE TO REACH AGREEMENT WITH OTHER LARGE BRITISH FIRMS AND EMBASSY DOES NOT BELIEVE THAT THIS STRUGGLE REPRESENTS SIGNIFICANT POLICY SHIFT OR THAT IT WILL EFFECT OTHER CORPORATE INTERESTS (INCLUDING U.S.) IN MALAYSIA. END SUMMARY.

2. IN STRUGGLE FROM WHICH NO WINNERS LIKELY TO EMERGE, BOARD OF SIME DARY (BRITISH-RUN MULTINATIONAL) AND PERNAS SECURITIES (SUBSIDIARY OF GOM OWNED PERNAS GROUP OF COMPANIES) ARE ENAGED IN FIGHT OVER CONTROL OF SIME DARY. AT STAKE IS CONTROL OF LARGEST FOREIGN-OWNED COMPANY IN MALAYSIA (NET ASSETS OF U.S. \$284 MILLION, CAPITALIZED AT U.S. \$260 MILLION). CONFLICT BROKE INTO PUBLIC DOMAIN ON NOVEMBER 19 AT SIME ANNUAL GENERAL MEETING IN KUALA LUMPUR WHEN PERNAS REPRESENTATIVES MOVED THWT FOUREXISTING SIME DIRECTORS NOT BE RE-ELECTED BUT BE REPLACED WITH THREE LEADING BUSINESSMEN FROM ASEAN REGION. SIME CHAIRMAN CALLED FOR FORMAL POLL OF STOCKHOLDERS AND RESULTS WILL BE ANNOUNCED ON DECEMBER 10. IF PERNAS WINS, THREE NEW BOARD MEMBERS WILL GIVE GOM CONTROL OF BOARD. PERNAS NOMINEES (ONE MALAYSIA, ONE SINGAPOREAN AND ONE FILIPINO) ARE ALL BUSINESSMEN WHO HAVE MAJOR STAKE IN MALAYSIA ARE ARE EXPECTED TO SUPPORT GOM NEW ECONOMIC POLICY (NEP) GOALS OF MALAYSIANIZATION. SIME BOARD OPPOSING THIS AS "BACKDOOR NATIONALIZATION" AND BECAUSE NEW BOARD WOULD NOT PROTECT COMPANY'S INTERESTS IN NEGOTIATIONS WITH GOM.

3. DESPITE PUBLIC STANCES DESIGNED TO INDICATE PROBITY AND REASONABLENESS OF THEIR POSITIONS, BOTH SIDES HAVE INDULGED IN INTENSIVE BACKSTAGE MANEUVERING. CLEARLY, GOM ATTEMPTING TO TAKE OVER FROM MINORITY POSITION IN CLASSIC CORPORATE TAKEOVER FAMILIAR IN DEVELOPED COUNTRIES. SIME, ON OTHER HAND, HAS DUBIOUS REPUTATION IN MALAYSIA. GOM BELIEVES THAT SIME HAS DRAGGED ITS FEET ON COMPLYING WITH NEP TARGETS DESPITE COMPANY'S PUBLIC CLAIMS OF REASONABLENESS. SITUATION WAS EXACERBATED BY SIME MOVE EARLIER THIS YEAR TO MOVE SUBSTANTIAL NUMBER OF SHARES (UP TO A QUARTER OF TOTAL) OUTSIDE OF CONTROL OF GOM AUTHORITIES BY NOT LISTING THEM ON KUALA LUMPUR STOCK EXCHANGE. THIS ENRAGED POWERFUL AND LIMITED OFFICIAL USE

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AUTOCRATIC GOVERNOR OF CENTRAL BANK, TAN SRI ISMAIL BIN ALI, WHO STATED THAT "THERE IS NO PLACE FOR PIRATES AND BUCCANEERS IN THIS COUNTRY. WE EXPECT THOSE WHO OPERATE IN THIS COUNTRY TO COMPLY WITH OUR REGULATIONS." TAN SRI ISMAIL ALSO CHAIRMAN OF CAPITAL ISSUES COMMITTEE WHICH OVERSEES STOCK ISSUES IN MALAYSIA. WHILE PUBLIC SPECULATION HAS TENDED TO IDENTIFY MINISTER OF FINANCE, TENGKU RAZALEIGH BIN HAMZAH, AS INSTIGATOR IN THIS AFFAIR, EMBASSY BELIEVES TAN

SRI ISMAIL TO BE DRIVING FORCE BEHIND GOM INTRANSIGENCE. END RESULT OF THESE MANEUVERS WAS TO DILUTE PERNAS HOLDINGS IN SIME FROM 9.5 TO 8.5 PERCENT, THUS RAISING DOUBTS ABOUT SIME'S INTENTIONS RE NEP. PRESENT SIME BOARD, WHICH TOOK OVER FROM NOTORIOUS DENNIS PINDER AFTER HE ARRESTED, APPEARS TO HAVE DONE A GOOD JOB OF MANAGING COMPANY. TO A LARGE EXTENT, HOWEVER, BOARD MEMBERS (INCLUDING CHAIRMAN) ARE NEW TO AREA AND HAVE NOT DISPLAYED ANY PARTICULAR TALENT AT HANDLING GOM SENSIBILITIES. GOVERNMENT, ON OTHER HAND, HAS SHOWN LITTLE INTEREST IN COMPROMISE. AS USUAL, WHEN TAN SRI ISMAIL GETS HIS BACK UP, IT STAYS UP. NEITHER SIDE HAS ATTEMPTED TO SERIOUSLY NEGOTIATE, RATHER, THEY HAVE PREFERRED TO INDULGE IN PUBLIC BROADSIDES WHICH EFFECTIVELY PRECLUDE ANY SETTLEMENT.

4. OUTCOME OF ALL THIS REMAINS UNCLEAR. NEITHER SIDE KNOWS WHO WILL WIN DECEMBER 10 POLL. BOTH ARE BUSY ATTEMPTING TO OBTAIN PROXIES FROM SHAREHOLDERS, ROUGHLY 48 PERCENT OF WHOM ARE IN SINGAPORE. MANY SINGAPORE INSTITUTIONAL SHAREHOLDERS, HOWEVER, HAVE SUBSTANTIAL INTERESTS IN MALAYSIA AND THUS MUST BE CAREFUL IN HOW THEY VOTE. CLAIMS TO CONTRARY, FEW PARTICIPANTS BELIEVE THAT POLL RESULTS WILL STAY SECRET. AT PRESENT TIME, PERNAS APPEARS TO HAVE OBTAINED ROUGHLY 30 PERCENT OF VOTE. THIS MAY WELL INCREASE WITHIN NEXT FEW DAYS AND IF SIGNIFICANT NUMBER OF SINGAPORE SHAREHOLDERS ABSTAIN (SAFEST COURSE OPEN FOR THOSE WITH MALAYSIAN INTERESTS), PERNAS MAY WELL WIN FIGHT. IN MEANTIME, SIME REPRESENTATIVES HAVE MET WITH PRIME MINISTER HUSSEIN BIN ONN IN ATTEMPT TO FULLY EXPLAIN THEIR POSITION TO HIM.

5. COMMENT. AT THIS STAGE, CONTEST IS NOT EVEN A ZERO-SUM GAME. UNLESS ACCEPTABLE COMPROMISE AGREED TO, NO WINNERS LIMITED OFFICIAL USE

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ARE LIKELY TO EMERGE. IF PERNAS WINS, QUESTIONS WILL BE RAISED ABOUT GOM BEHAVIOR IN DEALING WITH FOREIGN INTERESTS. IF SIME WINS, RESIDUE OF BITTERNESS WILL BE DIFFICULT TO CLEAN UP. IT IMPORTANT TO REALIZE, HOWEVER, THAT IN MANY WAYS THIS STRUGGLE REPRESENTS SPECIAL CASE AND DOES NOT INDICATE SHIFT OF POLICY BY GOM. PARTICULAR ROLE OF SIME DARY IN MALAYSIA, ITS POOR REPUTATION IN PAST, BRITTLE PERSONALITIES OF LEADING PLAYERS AND POLITICAL MANEUVERING WITHIN MALAY RULING PARTY ARE ALL SPECIAL FACTORS BEARING ON THIS STRUGGLE. IT SHOULD ALSO BE KEPT IN MIND THAT QUESTION OF FUTURE OF OLD-LINE BRITISH PLANTATION AND MINING INTERESTS WITHIN NEP FRAMEWORK IS ONE THAT GENERATES GREAT DEAL OF EMOTIONAL HEAT ON ALL SIDES AND THAT SERIOUS DISAGREEMENTS MAY ARISE THAT DO NOT EFFECT OTHER CORPORATE INTERESTS (PARTICULARLY U.S.). BALANCED

AGAINST THIS DISPUTE MUST BE MEASURED GOM'S SUCCESSFUL
NEGOTIATIONS WITH LONDON TIN AND RECENTLY ANNOUNCED AGREEMENT
WITH HARRISONS PLANTATIONS FOR EQUITY FORMULA ACCEPTABLE
TO BOTH SIDES IN MEETING NEP GOALS.
UNDERHILL

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